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Message Text

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ACTION EUR-12

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LAB-04 SIL-01 SAM-01 OMB-01 L-03 PA-02 PRS-01 USIA-15

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E.O. 11652: N/A
TAGS: EIND, EEC
SUBJECT: STATE AIDS--EC COMMISSION PERMITS AID TO FRENCH AND BRITISH AUTO FIRMS

REF: EC BRUSSELS 4805

1. ON MAY 29 THE EC COMMISSION ANNOUNCED THAT IT WOULD NOT RAISE OBJECTIONS UNDER ARTICLE 92 OF THE ROME TREATY (STATE AIDS) TO FRENCH GOVERNMENT AID TO CITROEN AND BRITISH GOVERNMENT AID TO LEYLAND. (A GERMAN GOVERNMENT PROGRAM TO FINANCE THE RETAINING OF UNEMPLOYED VOLKSWAGEN WORKERS AND TO PROVIDE AID TO FIRMS INVESTING IN THE BORDER REGIONS WHERE VW PLANTS ARE LOCATED HAD ALREADY RECEIVED COMMISSION APPROVAL, SEE REFTEL.) ACCORDING TO PRESS REPORTS, THE FRENCH GOVERNMENT AID TO CITROEN WILL BE IN THE FORM OF 1 BILLION FRANC LOAN AT 9.75 PERCENT INTEREST FOR 15 YEARS TO FACILITATE ITS MERGER WITH PEUGEOT. THE BRITISH GOVERNMENT ACQUIRED MAJORITY PARTICI-PATION IN LEYLAND FOR 200 MILLION POUNDS, WILL PROVIDE FINANCIAL GUARANTEES FOR 200 MILLION POUNDS AND WILL LOAN THE COMPANY 500 MILLION POUNDS AT NORMAL INTEREST RATES.

2. THE "RULE" THE COMMISSION APPLIED IN REACHING ITS DECISIONS
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ON CITROEN AND LEYLAND WAS THAT GOVERNMENT AID MAY BE JUSTIFIED

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UNDER THE ROME TREATY IF THE AID IS INTENDED TO FINANCE A
RATIONALIZATION PROGRAM WHICH PERMITS A FIRM TO RECOVER ITS
COMPETITIVE POSITION. ON THE OTHER HAND, AID TO HELP A
NON-COMPETITITIVE COMPANY SURVICE WOULD NOT BE JUSTIFIED.
THE CITROEN AND LEYLAND PROGRAMS APPARENTLY MET THE
COMMISSION' S RATHER BROAD TEST. HOWEVER, THE COMMISSION NOTED
THAT SINCE SOME ASPECTS OF THE RATIONALIZATION PLANS FOR THE
TWO COMPANIES WOULD ONLY BE WORKED OUT OVER TIME, IT EXPECTED
THE FRENCH AND BRITISH GOVERNMENTS TO KEEP THE COMMISSION INFORMED
OF THE PRACTICAL MEASURES THAT WERE BEING TAKEN DURING DIFFERENT
PHASES OF THEIR RESPECTIVE PROGRAMS.

3. COMMENT: A COMMISSION CONTACT TOLD US THAT THE
IMPORTANCE OF CITROEN AND LEYLAND IN THEIR RESPECTIVE
ECONOMIES, THE NUMBER OF JOBS INVOLVED, AND THE IMPORTANCE
FRANCE AND THE UK ATTACHED TO THESE TWO SUBSIDY PROGRAMS MADE IT POLI
TICALLY
IMPOSSIBLE FOR THE COMMISSION TO OBJECT TO THE AIDS. THE
BRITISH REFERENCE IS ALSO ADVANCED BY THE PRESS AS A FACTOR IN
THE COMMISSION' S DECISION, BUT THE OTHER REASONS WOULD PROBABLY
HAVE BEEN SUFFICIENT.
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